

No. 15831

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

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SANI-TOP, INC., a Corporation,

*Appellant,*

*vs.*

NORTH AMERICAN AVIATION, INC., a Corporation,

*Appellee.*

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## APPELLANT'S REPLY BRIEF.

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## APPELLANT'S REPLY BRIEF.

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### 1. Introduction.

"3 (of the Motion to Strike) is directed to a part of the Second Affirmative Defense which alleges that the defendant is an infringer after October 22nd and that we must prosecute him on that basis. That we do not choose to do in this action. We may of course at a later date in another proceeding file an infringement case, but that is our choice and not the defendant's choice."

This statement was made by Mr. Tuthill on behalf of the patent owner North American and he referred to the activities of Sani-Top. This is not disputed by North American.

It is hard to conceive how a threat of a possible infringement suit could be more effectively worded. Based on this threat, coupled with other charges and claims made

on behalf of North American, Sani-Top brought this present declaratory relief suit, seeking clarification of its present and future operations as a manufacturer and member of the general public, who must otherwise continue in the constant fear of an infringement suit to be brought at the pleasure of North American. Meanwhile potential damages will build up until the patent expires in 1964.

Notwithstanding the peripheral obfuscations injected by appellee, appellant respectfully submits that the only material—and certainly the dominant—question here is whether an actual controversy under the patent laws exists between these parties.

## 2. Correction of Facts.

Certain statements made in appellee's brief are incorrect and the record and reporters will so show.

ERROR 1. On page 3 of appellee's brief, after date of November 13, 1956, there is chronicled:

“Complaint for Royalties accrued to Sept. 30, 1956 filed”.

This is incorrect. On November 13, 1956, the complaint filed by North American prayed:

“That an accounting be ordered to accurately determine the amount of all laminated sheet material post-formed by defendant under said Process since August 20, 1951, and the amount of royalties or license fees payable by defendant to plaintiff.” (Transcript page 11.)

ERROR 2. On page 31 of appellee's brief, the *Technical* case is analyzed with the statement:

“Also defendant had sued plaintiff for infringement of the same patent in another district.”



This is incorrect. Suit had not been filed by the defendant at the time of the filing of the complaint, and the majority of the Appeal Court apparently followed the District Court in not considering the later filed complaint. The existence of an actual controversy was found by the Appeal Court only on the statements made by the defendant-patentee, and not the filing of any infringement suit.

ERROR 3. On page 33 of appellee's brief, analyzing the *Lionel* case, appellee states that the state court suit was for royalties after termination of the license. This is not clear from the reported decision, and the language is equally susceptible of an interpretation that the state court suit was limited to a claim for royalties only during the existence of the license.

ERROR 4. On page 33 of appellee's brief, speaking of the *Bliss* case, appellee makes the following analysis:

"Defendant wrote plaintiff a letter which asserted that the 'use in this country of 4-high rolling mills similar to that shown in Exhibit B infringes' its patent . . .".

This is believed to be incorrect. The decision reports:

"It will be noted at once that the letter is a cordial one and that nowhere is a suit for patent infringement threatened in so many words."

ERROR 5. On pages 34 and 35 of appellee's brief, an attempt is made to distinguish the Supreme Court case of *Altwater v. Freeman*. In the discussion, the case of *Freeman v. Altwater*, 66 F. 2d 506, is referred to, with the statement that this was "an infringement action filed years before". This is incorrect. *Freeman v. Altwater* was a

contract action quite similar in its nature to the contract actions No. 20723 and No. 20724 which preceded the filing of this present declaratory judgment complaint.

### 3. The Contract Action.

Although the pleadings in contract No. 20723 constitute only one element of the total package evincing the patent controversy between these parties, they have appreciable significance and should be included in the court's consideration, along with the various statements made on behalf of North American which have been quoted in the Transcript and in the briefs.

North American very circumspectly and cautiously avoids taking any position at all regarding the period after September 30, 1956. North American has made it abundantly clear that the contract action No. 20723 covers the period only up to September 30, 1956. North American has disclaimed all claims *under the contract* for the period after September 30, 1956. Therefore the logical inference is that the claim made in the Nov. 13, 1956, Complaint (quoted under ERROR 1 above) must have included a claim under the patent and not under the contract, since the contract claim has been so emphatically limited to terminate on September 30, 1956.

### 4. Judicial Notice Not Employed.

Contrary to appellee's contention, there is nothing in the dismissal order of the District Court from which one may infer that the motion was treated as anything but a simple "motion for dismissal upon the ground of lack of jurisdiction", and this is exactly the preface which the Court gave to its dismissal order.

There is nothing in the judgment and order to indicate that the Court went outside of the record contained in this action. The court's order is set forth on page 40 of the transcript and states *inter alia*:

“ . . . the motion *having been heard and submitted for decision as a motion for dismissal upon the ground of lack of jurisdiction over the subject matter* under Fed. R. Civ. P. 12(b)(1) and 56(b); and it appearing to the court that: (1) Plaintiff *has failed to allege an actual controversy* between the parties, [28 USC (2201)]; (2) Therefore this suit is not within the subject matter jurisdiction of this court . . .” (emphasis added).

Appellee's brief accuses appellant of presenting an incomplete record, stating that appellant should have made of record everything of which the District Court might conceivably have taken judicial notice in rendering its order on the motion to dismiss. This is an absurd position for appellee to take. From the tenor of the dismissal order, appellant could not glean the slightest intimation concerning what the District Court might have taken judicial notice of in rendering its decision that “Plaintiff has failed to allege an actual controversy between the parties”. The quantity of “facts” of which a trial court might take judicial notice is almost infinite (Wigmore on Evidence, 3d Ed., 1940, pp. 547-579). Absent some indication in the court order that judicial notice was taken of matters outside the record in this case, appellant had and has no way whatever of knowing what facts might or might not have influenced the District Court in rendering its dismissal order.

Furthermore:

“Judicial notice being a dispensation of one party from producing evidence, it would seem that the party must, in point of form, make a request for it.”

Wigmore on Evidence, 3d Ed., 1940, Sec. 2568.

Since there was neither a request for judicial notice by either party, nor an indication that the District Court did take judicial notice of any facts outside this record, appellant cannot be justly charged with failing to provide a complete record.

In taking the present appeal, the only obligation that appellant could reasonably be charged with is an obligation to present those facts and incidents which it relies on to establish that an actual controversy did and does exist between the parties. Once an actual controversy has been established, the jurisdiction of the Federal Court under 28 U. S. C. 2201 attaches, and other events cannot shake that jurisdiction. *Dazian's v. Switzer*, D. C. Ohio 1950, 95 Fed. Supp. 626, 88 U. S. P. Q. 211.

To establish jurisdiction it is only necessary for plaintiff to present to the court sufficient facts to show that a controversy exists. In *McCurrach v. Cheney*, D. C. N. Y. 1944, 61 U. S. P. Q. 515, the court refused to dismiss a patent declaratory judgment complaint, saying:

“If the defendant has announced the position attributed to it by some of the affidavits, then manifestly there exists a controversy sustaining jurisdiction for a declaratory judgment . . .”.

From the dismissal order (Transcript page 40), it would appear that the District Court was simply following the order of procedure outlined by the New York District

Court in *Telechron v. Parissi*, D. C. N. Y. 1951, 97 Fed. Supp. 355, 89 U. S. P. Q. 136. Therein the court stated:

“The court agrees with the plaintiff that defendant’s motion to dismiss must be based either upon the insufficiency of the complaint or upon a showing that in fact there is no claim by the defendant that the plaintiffs have infringed his patent.

“The question of the sufficiency of the complaint can be disposed of by the statement that it appears to be in the usual form; that it alleges the existence of an actual controversy; that it contains allegations to the effect that the defendant asserts ownership of three certain patents, and that the plaintiffs are engaged in the manufacture of clock-controlled switches which violate defendant’s rights in said patents, and that such patents are invalid for lack of invention, and in effect have not been infringed by plaintiffs . . .”.

The New York court then proceeded to the second question as to whether an actual controversy did in fact exist, and found from the facts that such a controversy did exist.

It is appellant’s position here that there was error on the part of the lower court in this last step. If the existence of an actual controversy be regarded as a question of fact, then the District Court erred in resolving that question of fact on motion to dismiss. If, on the other hand, it be regarded as a question of law, it is appellant’s position that the District Court drew an incorrect legal conclusion from the facts which were presented in support of jurisdiction.

### 5. An Actual Controversy Exists.

The interpretation of the *Aetna* case, cited indirectly on page 19 of appellee's brief, as applied to patent declaratory judgment matters, is given by the Third Circuit in *Dewey v. American*, C. C. A. 3, 1943, 137 F. 2d 68, 58 U. S. P. Q. 456. There the court stated:

"The statutory provision limiting declaratory judgments to 'cases of actual controversy' is no more than a recognition that the Federal judicial power extends only to 'cases' or 'controversies' in the constitutional sense. *Aetna Life Ins. Co. v. Haworth*, 300 U. S. 227, 239-40 (1937). This constitutional requirement as applied to declaratory judgments is not interpreted in any narrow or technical sense. *Aetna Life Ins. Co. v. Haworth*, *supra*, *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U. S. 270 (1941). There must be a concrete case touching the legal relations of the parties having adverse legal interests and susceptible 'of an immediate and definitive determination of the legal rights of the parties in an adversary proceeding upon the facts alleged.' "

The court then went on to conclude that:

"It is not denied that Anode has thus publicly asserted such a scope for its patent claims as to embrace the similar methods practiced commercially by Dewey & Almy. We think this assertion evidences the existence of a substantial controversy between Anode and Dewey & Almy . . .".



## 6. A Categorical Threat of Infringement Suit Is Not Required.

Appellee's insistence on page 22 of its brief that: "A stated threat by the patentee of suit for infringement is required . . ." is not supported even by *Bliss v. Cold Metal*, D. C., O. 1955, 137 Fed. Supp. 676, cited by appellee. In that case it appears that no derivative or close equivalent of the word "infringe" was employed by the defendant, but the court held that the question of infringement had nonetheless been raised, "perhaps unintentionally", by the defendant-patentee.

On the question of actual controversy the court in *Bliss* stated the law to be:

"If the party bringing suit is apprehensive that continued use, manufacture or sale of a patented device or method might be cause for suit by the patentee, and said apprehension is fostered by the patentee—either directly or indirectly, then it is for that party the Declaratory Judgment Act was designed as a means of precipitating the issue of liability and thereby minimizing damages if liability is found. If that party no longer desired to use, manufacture or sell the patented device or method he would have little reason to clear the air of possible infringement in a declaratory judgment action. It is, then, sufficient to come within the pale of the Declaratory Judgment Act for the party bringing suit to allege the past, present use, manufacture or sale of the patented device or method and the intention to continue to do so."

See also *Newell v. Newton*, D. C. Del. 1950, 95 Fed. Supp. 355, 89 U. S. P. Q. 17.

*Clair v. Kastar*, C. C. A. 2, 1945, 148 F. 2d 644, 65 U. S. P. Q. 143, and *Salem v. National*, D. C. Penn. 1948, 75

Fed. Supp. 993, 76 U. S. P. Q. 255, were straight patent infringement suits. The language cited on page 14 of appellant's opening brief, however, is more than mere dictum, because in each case the point under consideration related to a defense of laches raised by the defendant (accused infringer). The court struck the laches defense because of the availability of the declaratory judgment remedy. Therefore in making the statements quoted in appellant's opening brief, each court had direct occasion to particularly examine the nature of the remedy available to the accused infringer under the Declaratory Judgment Act. Thus the court's stated analysis of the Act may not be dismissed as mere *obiter dictum*, because it had a direct bearing on the ultimate ruling of the courts, in the respective cases, concerning the laches defense.

### 7. Events After Filing.

Opinions are divided as to whether the equity court may, in order to determine whether an actual controversy exists between the parties, take into account events occurring after the filing of a declaratory judgment complaint.

The case of *Hart v. Recordgraph*, D. C. Del. 1957, 73 Fed. Supp. 146 cited by appellee in support of its position on this point, was reversed by the Third Circuit. This reversal, holding that the lower court had erred in dismissing the complaint, was cited in appellant's opening brief at page 23, being the case of *Hart v. Recordgraph*, C. C. A. 3, 1948, 169 F. 2d 580, 78 U. S. P. Q. 310. There is no indication in the appeal decision that the appeal court either rejected or approved the lower court's language concerning events occurring after filing of the complaint. In



any event, however, this language of the lower court becomes at best *obiter dictum*.

*Hooper v. Langston*, D. C. N. J. 1944, 56 Fed. Supp. 577, 63 U. S. P. Q. 165, cited on page 24 of appellee's brief:

In this case, also, the court indicated that it would not consider events occurring after the filing of the complaint. However, this statement became dictum when the court held in favor of the plaintiff, to the effect that an actual controversy did exist between the parties, and thereupon denied the defendant's motion to dismiss for lack of an actual controversy.

*Rohm v. Permutit*, D. C. Del. 1953, 114 Fed. Supp. 846, 99 U. S. P. Q. 311, cited on page 24 of Appellee's brief.

This case involved a simple infringement suit where no infringement had occurred before the filing of the original complaint. In affirming its dismissal of the infringement complaint, the trial court, on rehearing (*Rohm v. Permutit*, 104 U. S. P. Q. 286), implicitly recognized the broader scope and power of an equity court under the Declaratory Judgment Act, noting:

"The action is an infringement action and nothing more. *It is not an action for declaratory judgment.*"  
(Emphasis added.)

The court thus specifically limited the effect of its holding to a simple infringement suit and expressly excluded therefrom a declaratory judgment suit.

It may be noted parenthetically that the plaintiff later refiled successfully. *Rohm v. Permutit*, 130 Fed. Supp. 260, 103 U. S. P. Q. 76.

It is belived that the broad equity powers implicit in the Declaratory Judgment Act are better implemented through the attitude expressed by Judge Clark of the Second Circuit in his concurring opinion in *Technical v. Minnesota*, 200 F. 2d 876, 95 U. S. P. Q. 406:

“I agree with the decision (that a controversy existed), but think it should rest also on the showing that an undoubted controversy developed after this action was brought. Whatever doubt as to the existence of a controversy there may have been originally has been entirely removed—if we can look at actualities. . . . Forcing plaintiff to start over will not add to or subtract from these facts; it will only cause judicial waste.” (Parenthetical material added.)

### 8. Appellee's Other Cases.

It appears that of the remaining 37 cases cited in appellee's brief, in support of its various contentions, only nine relate to patents.

Since the issue here is—what conduct by a patentee raises an actual controversy—it is felt that little guidance can be gleaned from non-patent cases. This reply brief will therefore close with a discussion of these patent cases.

*General Electric v. Refrigeration*, D. C. N. Y. 1946,  
65 Fed. Supp. 75, 68 U. S. P. Q. 324.

In this case the plaintiff brought suit for declaratory judgment; defendant moved to dismiss for lack of actual controversy; *motion was denied*.

The court first states that an allegation of an actual controversy made in the complaint is not, standing alone, sufficient to support jurisdiction, since it is a mere legal

conclusion. The court then proceeds to examine the preliminary facts set before it.

“Whether there was any claim or notice of infringement, when considering the qualifying language of the defendant in his letter of June 20, 1945, in reference to an opinion of ‘the other methods’ is not free from all doubt. We believe that the admitted communications between the parties sustain the view that the defendant claimed and gave sufficient notice of the claim of infringement of claim 11 to sustain jurisdiction. . . . The letter of June 20, 1945, if given the effect claimed by defendant, *would enable the defendant to accomplish a purpose intended to be avoided by the Declaratory Judgment Act. It might sit back and take no action till (sic) the plaintiff had gone to much trouble and expense in making and putting its refrigerator on the market.* We think the proper time is now to meet the question of infringement or invalidity and that a real controversy within the intent of the Declaratory Judgment Act exists.” (Emphasis added.)

*National v. Philad*, D. C. Del. 1943, 3 F. R. D. 299, 58 P. Q. 465.

Here the holding was against the patentee and the motion to dismiss was denied. The language therefore appears to be *obiter dictum*.

*Chicago v. Hughes*, D. C. Del. 1945, 61 Fed. Supp. 767, 66 U. S. P. Q. 425.

In this case plaintiff’s allegation of actual controversy was bottomed on an infringement notice tendered by defendant years before. As stated by the court:

“Ten years ago and six years ago defendant stated that it considered devices then made by plaintiffs to infringe three of defendant’s patents.”

The court proceeded to state:

“The ten-year old infringement notice should rest in peace. The day for justiciable resurrection has long since passed.”

The court carefully distinguished over *Derwey v. American*, 137 F. 2d 68, by stating:

“The persuasive fact which compelled that decision, according to the opinion, was *the extraordinary licensing program which the patent holder was forcing on the industry*. The particular method of doing business prompted the court to observe, ‘The patentee has used its patents as an economic weapon against other alleged infringers who decline to take a license. In its suit against the Lee-Tex Co., Anode has asserted that the coagulant dip process practiced by that company constitutes an infringement. It is not denied that Anode has thus *publicly asserted such a scope for its patents as to embrace the similar methods practiced commercially by Derwey & Almy.* \* \* \* It is a fair inference that Anode in bringing suit against the Lee-Tex Co. was counting on the in terrorem effect upon other manufacturers \* \* \*.’”

It seems clear that the present situation is far more in keeping with the *Derwey* facts than with the *Chicago v. Hughes* facts.

Furthermore in the Ninth Circuit case of *Crowell v. Baker*, C. C. A. 9, 1944, 143 F. 2d 1003, 62 U. S. P. Q. 176, it was held that a lapse of four years following the filing and dismissal of an infringement suit by the defendant did not serve to dissipate the charge of infringement contained therein, so as to erase the existence of an actual controversy. In this connection it is to be noted that all

of the conduct of North American Which Sani-Top is relying on to sustain the existence of an actual controversy occurred within less than a year of the filing of the declaratory judgment complaint.

*Research v. Neptune*, D. C. N. Y. 1957, 156 Fed. Supp. 484, 115 U. S. P. Q. 327.

This was a declaratory judgment action in which the issue turned on whether a statement by defendant made to plaintiff that it had certain other patents which may be infringed by the plaintiff's products, constituted a sufficient charge to bring all of defendant's patents in this general area into the scope of a declaratory judgment action. The court held that the specific patents which had been referred to by the defendant in its correspondence with the plaintiff were properly made the subject of a declaratory judgment action, but that no other patents could be brought into the declaratory judgment suit, because their designation by the defendant had been too indefinite. This, coupled with the general reference "may be infringed" caused the court to reject the unnamed patents from the suit.

It would appear that this circuit leans somewhat in the other direction on the question of specificity of subject matter. In *Caterpillar v. International*, C. C. A. 9, 1939, 106 F. 2d 769, 43 U. S. P. Q. 160, there was involved the question of how specific a charge of infringement by the defendant had to be with relation to the products manufactured by the plaintiff. It was held therein that the plaintiff could introduce into a declaratory judgment suit not only products being made at the time of the defendant's letter, but also products in process of development but not yet on sale.

*Tuthill v. Wilsey*, C. A. 7, 1950, 182 F. 2d 1006,  
86 U. S. P. Q. 230.

In this case there was pending in state court a contract action brought by Wilsey against Tuthill, and it appeared to the court that the contract was or might be still in force. That being the case, the court held that Tuthill's declaratory judgment action in Federal court was premature, since it could not properly be brought until it had been clearly determined that Tuthill was no longer a licensee. It was on this very ground that the court distinguished its own ruling in *Chicago v. Katsinger*, 123 F. 2d 518, 51 U. S. P. Q. 492, discussed in appellant's opening brief, page 19.

In the present instance, the fact situation is that of the *Chicago* case, not the *Tuthill* case, for it is clear, and agreed by both parties, that Sani-Top is no longer a licensee of North American.

*Hartford v. Crowley*, C. A. 3, 1955, 219 F. 2d 568,  
104 U. S. P. Q. 254.

In this case the principal act of the patentee-defendant which was alleged to constitute the raising of an actual controversy, *i.e.*, a charge of infringement, was a statement by the patentee that its products were protected by its own patents and did not infringe the plaintiffs patents. The plaintiff attempted to link this statement into a charge of infringement by alleging that since its products were "similar" to those of the defendant, it followed automatically that the defendant-patentee was charging that its patents were infringed by the plaintiff's products.

This is clearly distinguishable from the present controversy, where North American has asserted that Sani-Top's activity (and this is the only activity in issue) comes within North American's patent.



*Thermo-Plastics v. International*, D. C. N. J. 1941,  
42 Fed. Supp. 408, 52 U. S. P. Q. 56.

Here the principal averment to support actual controversy jurisdiction was an affidavit by one of plaintiff's customers referring to a discussion with an agent of the defendant-patentee:

" . . . the exact wording of which deponent does not recall, but which discussion resulted in an understanding by deponent that if he continued to operate said grinding mill leased from Thermo-Plastics Corporation he would be subjected to an action for patent infringement."

In rejecting this affidavit the court held:

"The answering affidavit of Mr. Scowe states that he cannot recall what was said, but he had an 'understanding' and from the conversation he 'understood'. Nothing in Mr. Scowe's affidavit is of testimonial value."

In the present situation actual verbatim language has been placed of record to establish the existence of an actual controversy. Appellant's case here does not rest merely on conclusions or "understandings" reached by appellant.

*Magee v. Vehicular*, C. A. 3, 1950, 180 F. 2d 897,  
84 U. S. P. Q. 395.

In *Magee* the reason the declaratory judgment complaint was dismissed was because of the fact that the identical issues presented therein by the plaintiff, namely, infringement and validity, were then pending before the District Court in a companion action which had been brought by the United States against the defendant and in which the plaintiff had intervened. The court therefore dismissed

the declaratory judgment complaint as being, in effect, redundant, saying:

“Magee Hale has seen fit to try to test the validity of the patents in the suit at No. 259. We cannot say under all the circumstances that it is inappropriate for Magee Hale to remain as a party at No. 259 until it be granted or denied relief therein.”

In the present situation the issue of validity of North American's patent has been specifically ruled out of consideration in the corresponding contract action, and Sani-Top (plaintiff herein), has no other avenue in which to test this issue except in the present declaratory relief action.

### 9. Conclusion.

“That we do not choose to do *in this action*. We may of course *at a later date in another proceeding file an infringement case*, but that is our choice and not the defendant's choice.”

This epitomizes North American's attitude. Its expression is the very situation for which the Declaratory Judgment Act was designed, as relates to patent cases. This question having been so clearly raised by the patentee North American, Sani-Top is entitled to a determination of validity and infringement as to its continuing operations, and should not be required to operate indefinitely into the future, piling up possibly bankrupting damages.

Jurisdiction rests with the Federal Court and the dismissal of the District Court should be reversed.

Dated June 12, 1958.

Respectfully submitted,

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